

# Crowdfunding

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## Contents

1. Summary
2. What is crowdfunding?
3. History
4. Different types of crowdfunding
5. The growth of crowdfunding
6. Environmental crowdfunding
7. Regulation
8. Some examples of crowdfunding platforms
9. An example of a crowdfunding journey
10. Notes and References

This information Note aims to inform LI members on the growth of crowdfunding and the potential it appears to have in funding community, greenspace and environmental projects.

**This information does not constitute financial advice from the LI or the author or a recommendation that crowdfunding would be suitable for LI members, their clients or investors. You should consult a financial adviser if you require financial advice and may also wish to refer to [information provided by the FCA](#).**

## **1. Summary**

- 1.1 Crowdfunding is raising funds for a specific purpose from a large number of people, usually via the Internet.
- 1.2 Crowdfunding originated from the banking crises as a way for businesses to secure funding directly from investors largely to support ventures in the hi-tech industries. It is now a multi-billion dollar industry and is also growing rapidly in the UK. Although largely business oriented there are emerging opportunities for communities and the environmental sector to secure funding from a range of sources to 'crowdfund' their own non-commercial projects, thus helping to regenerate communities, green space and other landscape initiatives across the UK.

## **2. What is crowdfunding?**

- 2.1 Crowdfunding is the process of raising money for a project or venture by asking people or organisations to pledge funds via the Internet to invest in or support a cause.
- 2.2 Crowdfunding became popular in the business community in the USA in 2008 after the banks started refusing loans to business entrepreneurs. People, often small start-up businesses looking for funding then took their pitches for funding online, using crowdfunding sites or platforms such as Kickstarter to engage with potential investors and to secure funding, particularly in the arts, music and high tech industries.

## **3. History**

- 3.1 Although the term crowdfunding is relatively new, the concept of people joining together to publically subscribe or jointly donate to a cause is not. On the Indian sub-continent, for example, the tradition for people to buy bricks to build mosques goes back centuries. In the United States the money to build the plinth on which stands the Statue of Liberty was raised through public subscriptions. And in the UK there are many examples of war memorials being funded by local communities to commemorate the fallen in both world wars. What is new to this way of raising funds is the use of the Internet and the potential to not only reach a local community audience but a national and international one as well.

## **4. Different types of crowdfunding**

- 4.1 Crowdfunding is still an emerging industry and so one can expect to see new types and models change over time. There are currently four main types:

- Equity or investment based: People investing directly into a new or established business by buying shares or equity in the business, in effect becoming a part owner of the business.
- Lending: People lend money to individuals or businesses in the expectation of a financial return on the investment.
- Reward based: People give money to receive a reward, service or product, in effect pledging money in exchange for receiving a reward in the future if the project reaches the funding goal. The rewards can be small in nature and as simple as a tee shirt but something in return for the donation. The rewards can be tailored so that the bigger donation, the bigger and more bespoke the reward.
- Donation based: People give money to enterprises or charities whose activities or products they want to support – in effect sourcing donations from the crowd to support a cause. The return on investment to those who donate is the satisfaction of supporting a worthwhile initiative.

4.2 The Equity and lending types are commercially dominated in nature where investors will fund ventures to gain a return on their investment. This can either be done through buying a stake in the business or by lending to the company. The reward based and donations forms of crowdfunding are generally more favourable ways of securing funds and profile for community based and charity projects including green space and civic realm improvements.

4.3 The process of raising funds through crowdfunding relies on the crowdfunding platform. These are run by businesses or not for profit social enterprises depending on aims and objectives of the company. The majority of these platforms (websites) focus on specific interests be they commercial or more socially orientated in nature. As a general principle most of the Reward and Donation crowdfunding sites will charge a fee of around 5% plus money transaction charges such as from using PayPal. In most cases only when the campaign meets its funding target within an agreed time frame will the monies be passed onto the project creator. If the funding goal is not reached no fees are paid. Those who want to support projects will only be charged, if and only if, the campaign hits its funding target. However, all the funding platforms have their own terms and conditions and these need to be checked carefully before entering into a contract with them.

## 5 The growth of crowdfunding

5.1 The growth of Internet based crowdfunding has been significant and is predicted to grow still further. In a commissioned report by the World Bank (2013), it reports that just one of the crowdfunding platforms, *Kickstarter*, the market leader in donation based crowdfunding, has raised US\$815 million from 4.9 million backers to nearly 50,000 projects throughout the world since it started business in 2009. A Nesta study (*Crowding In*, 2012) reports that almost £1 billion was raised through crowdfunding and Peer to Peer lending in the UK, providing funds for over 5,000 small and medium sized enterprise's and many community projects. By 2016, Nesta predicts that the value of crowdfunding could be in the region of £14.5 billion.

## 6 Environmental crowdfunding

- 6.1 Crowdfunding via the internet started as a business venture and as a way to connect directly with potential backers who sought a financial return on their investment. However, the crowdfunding technique is being used more and more by individuals, communities and organisations to promote environmental and public realm initiatives that benefit social causes rather than purely business sector ventures.
- 6.2 Examples of successful crowdfunding campaigns include the Red Rose Forest in Manchester raising £39,000 through the crowdfunding platform *Spacehive* for green infrastructure improvements to regenerate St Stephens Square near to the city centre. In this case funding was secured from individuals, local authorities, private sector and from a charitable trust willing to contribute towards the campaign. Other examples include the Stockwell Urban Garden Oasis in London raising nearly £3,000 for the creation of a forest garden for local children and in East London 'The Line' securing, £140,000, through *Spacehive* for planning work to create a sculpture trail along London's canals and rivers linking the Olympic stadium with the O2 area. These examples help demonstrate that crowdfunding can be used to regenerate local green space, engage communities, secure funding from a range of sources as well as obtain funding for planning type work. However, crowdfunding is often seen to be more successful in fundraising for physical assets rather than in the less tangible items such as planning and training etc.
- 6.3 Crowdfunding like any other fundraising campaign will not always succeed. Tips for success include making sure the idea is well researched, well thought out, credible and ultimately one that will inspire people to pledge their own or their organisation's money. Another proven factor in success is ensuring the campaign has good publicity and one that is well promoted through people's networks and these can be off line networks including coverage in press and broadcast media as well as online networks.
- 6.4 With the demise of public funding for environmental work, crowdfunding has real potential to bring new money to community based green space improvements as well as wider environmental regeneration and social benefits. With the strong reliance on social media it also has potential to reach a new audience, one that typically may not be that inclined towards environmental and social issues.
- 6.5 There may also be a downside to the growth and number of crowdfunding platforms and the lack of any environmental focus among the bigger and competing crowdfunding sites. As such people place their campaigns on a wide variety of platforms and although they may promote their project well, they may not get the profile they seek and their idea will ultimately fail. So, does the environmental sector have a role to play in helping to promote and market the environmental campaigns from across the differing platforms? There would be a resource issue to be considered and there is no guarantee that any increased profile of projects would lead to more funding and intended improvement work may still fail. However, the argument for running such an initiative, at least on a trial basis, would be that it is helping to regenerate communities, improve the places where they live and raise the profile and debate of green space and landscape management.

## 7. Regulation

- 7.1 Regulation has been slow to catch up with the ever fast moving pace of the crowdfunding movement. However, the [Finance Conduct Authority \(FCA\) has as of April 2014 issued policy](#) and is responsible body for regulation for lending or Peer to Peer crowdfunding. The FCA also has information that most people embarking on a project will find helpful.
- 7.2 The UK Crowdfunding Association (UKCFA) is a self-regulating body made up of many of leading crowdfunding businesses whose role it is to provide greater clarity and consumer protection for the industry. The UKCFA has a code of conduct which is aimed at protecting and providing confidence to consumers who may want to support causes of interest to them.

## 8. Some examples of crowdfunding platforms:

- 8.1 These are just a small number of the many crowdfunding platforms available (inclusion or omission should not be taken as significant or implying any recommendation; the list has simply been provided to assist with further research):

**Kickstarter (US based) with a focus on hi tech, music and film**

<https://www.kickstarter.com/discover/countries/GB>

**Indiegogo (US based) Generalist.**

<https://www.indiegogo.com/>

**Spacehive (UK based) with a focus on civic realm projects.**

<https://spacehive.com/>

**Crowdfund UK (UK based) Generalist with a community focus.**

<http://www.crowdfunder.co.uk/>

**The Trillion Fund (UK based) focussing on investment in renewable energy worldwide.**

**Crowdshed (UK based) Generalist with a focus on bridging the divide between business and charities.**

<https://www.crowdshed.com/>

## 9. An example of a crowdfunding journey

This is intended to be illustrative of the typical stages and not to be used as a model for developing a crowdfunding project. Advice should be obtained from an appropriately experienced financial adviser.

The Crowdfunding Journey	Notes
<p><b>Pre- launch.</b></p> <p>Concept stage: Getting a good idea</p>	<p>Researching and planning the idea. Choosing one that is likely to have a strong public appeal. Making sure it is fully and properly costed. Getting prepared to explain what and why the project should be funded along with expected outcomes. Developing a list of potential initial contributors. Testing the idea with them and asking if they would be willing to pledge funds. Choosing the platform carefully, having read the terms and conditions.</p>
<p><b>Pre- launch.</b></p> <p>Design stage: Setting up a campaign on a crowdfunding platform</p>	<p>Writing the 'story'. Being genuine and inspiring people to fund the project. Possibly adding an engaging video explaining the campaign (a proven technique to help raise funds).</p>
<p><b>Post launch 1.</b></p> <p>Fundraising stage: Asking for initial pledges</p>	<p>As the project goes live, working hard to promote the campaign and give regular updates on progress. Encouraging potential funders to pledge early on in the campaign to encourage others to donate.</p>
<p><b>Post launch 2.</b></p> <p>Fundraising stage: Get press and social media to spread the word</p>	<p>Utilising fundraising and communication skills – asking the private and public sectors to contribute and working press contacts and networks to the full.</p>
<p><b>The Project is funded!</b></p>	<p>An online celebration with pledgers!</p>
<p>Pledgers get a suitable reward for their investment.</p>	<p>Ensuring pledgers get any promised rewards in good time and providing updates as the now funded project progresses to completion. Writing up lessons learned for the next project.</p>

## 10. Notes and References

Crowdfunding's Potential for the Developing World.2013. InfoDev, Finance and Private Sector Development Department. Washington, DC: World Bank.

[http://www.infodev.org/infodev-files/wb\\_crowdfundingreport-v12.pdf](http://www.infodev.org/infodev-files/wb_crowdfundingreport-v12.pdf)

Nesta, 2012. Crowding In. A report highlighting the rise and growth of crowdfunding in the UK

[http://www.nesta.org.uk/sites/default/files/crowding\\_in\\_report.pdf](http://www.nesta.org.uk/sites/default/files/crowding_in_report.pdf)

The Crowdfunding Centre, a website that collates crowdfunding data and statistics worldwide

<http://thecrowdfundingcentre.com/?page=places&location=GB#home|page/home/?>

FCA (2014) Policy Statement PS14/4 the FCA's regulatory approach to crowdfunding over the internet and the promotion of non –readily realisable securities by other media.

<http://www.fca.org.uk/static/documents/policy-statements/ps14-04.pdf>

Johnstone P, 2014, Case study on Environmental Crowdfunding.

<http://www.pjelements.co.uk/case-studies/>

Johnstone, P, 2014/15. Environmental Crowdfunding or how to become an environmental entrepreneur, The Ranger issue 108, Countryside Management Association. pp10 - 11

### **Crowdfunding verses Crowdsourcing**

Crowdfunding is the process of funding a venture or project. Crowdsourcing although sometimes used in the same context as crowdfunding is somewhat different and is often used to explain people being asked to contribute ideas on masse via the internet to solve an issue or to provide a service. In effect it is seeking help from people with experience of a particular issue. In most cases the help sourced from the crowd is given freely.

**LI members can follow any updates to this Technical Information Note and any continuing discussions on [Talking landscape](#)**

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